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SOUTH KOREA

The government of President Pak Chong-hui will be very much in control when President Ford visits Seoul for two days later this week. Opposition to Pak continues to build in South Korea, however, and some effort to publicize grievances may occur during the presidential visit.

The South Korean government has undertaken a massive security effort to ensure against any incident that might mar President Ford's visit. Most of the Korean people, moreover, hold a very favorable view of the US, and even anti-Pak elements will wish to avoid any implication of hostility toward the US leadership. Some bold oppositionists, however, might try to dramatize their demands for democratic reform in hopes of influencing the US visitors to counsel Pak toward moderation. At a minimum, they would hope to forestall any overt evidence of direct US support for Pak personally.

The prospects for a relatively smooth visit by President Ford improved last week when a militant speech by opposition New Democratic Party leader Kim Yong-sam failed to spark an upsurge in protests. Kim had called for an "extralegal" struggle movement, but riot police moved quickly to block a street march by him and fellow party members. Kim subsequently announced a moratorium on protests by his supporters while President Ford is in Seoul.

Demonstrations and protest meetings by student and Christian groups continue in Seoul and provincial cities, but the government's fairly restrained tactics of recent weeks have apparently enabled it to contain dissent, at least for the moment.

Since last Friday, the regime has taken the political initiative with a major effort to use the discovery of a North Korean tunnel under the Demilitarized Zone to whip up support for its tough anti-Communist line. Kim Yong-sam's party has felt compelled to end temporarily its boycott of the National Assembly to join in national protests over the tunnel.

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The outlook is for a reasonably calm and friendly atmosphere in Seoul during the Presidential visit. There is, however, the possibility of an opposition attempt-- for example, by small demonstrations, displays of placards, or attempts to contact members of the US party-- to draw attention to grievances.

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CYPRUS

Acting President Clerides will travel to London today to meet with Archbishop Makarios, presumably to discuss the situation on Cyprus and the question of Makarios' return.

Clerides is likely to urge Makarios to postpone his return in order to avert clashes between pro- and anti-Makarios elements. Demonstrations of this kind have already occurred, including one last week in Larnaca that involved 2,000 students. He will also want to clarify his own status as negotiator for the Greek Cypriot side in the talks with the Turkish Cypriots. Clerides has refused to rule out a bizonal geographic federation for Cyprus, a position that Makarios has publicly rejected.

A final decision on the timing of Makarios' return will not likely be reached until the meeting next week in Athens between the two men and Greek Prime Minister Karamanlis.

The Greek government is anxious about the impact of Makarios' return on the Greek Cypriot community and on the negotiations with the Turks. Makarios is less flexible than either Karamanlis or Clerides on the issues involved in any future negotiations. Karamanlis' landslide electoral victory last Sunday has given him greater maneuverability on the Cyprus question, and he is now in a better position to pressure Makarios to moderate his demands or delay his return.

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PORTUGAL

Reports of the illness and possible resignation of Prime Minister Goncalves may have aggravated the conflict between leftist and moderate members of the governing Armed Forces Movement.

The Portuguese press reports that Goncalves is taking a week's rest. Several embassy sources, however, have indicated that the situation is more serious. They say Goncalves has been under severe strain from long hours of work and may be on the verge of a mental breakdown.

Two embassy sources report that Goncalves submitted his resignation last Friday, presumably for health reasons. It is possible that the continuing conflict between left-wing and moderate officers within the Armed Forces Movement over a publication issued by the Movement that criticized the government has taken on a new dimension as each side maneuvers to have one of its own succeed Goncalves.

Growing dissension within the Movement is significant because the young officers had managed, in the past, to present a generally united front in opposition to former president Spinola's policies. Since Spinola's ouster, the moderate majority seems more willing to speak up for its beliefs and less willing to be led by left-wing activists.

The political atmosphere in Lisbon is further troubled by renewed rumors of plots against the provisional government by loyalists of the Caetano regime. Threats of a counter coup from the right have been used by the left in the past to unite their own forces against a "greater danger." Communist leader Alvaro Cunhal issued such a warning last week.

Although right-wing elements undoubtedly are planning moves that would return them to power, there are no indications they plan any action in the immediate future. The leadership evidently also believes that this is the case. Minister Without Portfolio Melo Antunes left on a trip to Paris this week. Major Vitor Alves, who returned from a European tour last Saturday, is the only member of the Goncalves-Alves-Antunes triumvirate in Lisbon at this time.

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SPAIN

The reconciliation brought about last month in Moscow between the Soviet and Spanish Communist parties is probably intended to enhance Spanish Communist efforts to play a role in the post-Franco period.

The communiqué issued following the four-day meeting between high Soviet party officials and a Spanish delegation led by Chairman Dolores Ibarruri and Secretary General Carrillo settled some of the differences that have troubled relations since the Spanish party's denunciation of the Soviet occupation of Czechoslovakia. Most important for the Spaniards was the approval given to the Ibarruri-Carrillo leadership and the implicit renunciation of further support from Moscow for the dissident pro-Soviet Communist faction headed by Civil War General Enrique Lister.

The announcement endorsed Carrillo's view that each Communist party could formulate its own policies, taking into account prevailing domestic conditions. He also received approval of his efforts to promote a "democratic junta" with groups opposed to the Franco regime. The talks, which were requested by the Soviets, apparently signify that the Kremlin believes Carrillo has the best chance of promoting communism in post-Franco Spain. Events in Portugal and Franco's health problems have convinced the Soviets to prepare for opportunities that may arise after Franco dies. In addition, the Soviets are trying to line up support in advance of the projected European and world Communist conferences.

The visit will not automatically erase the bitterness between the two parties.

Each side presumably recognizes the advantages of improved relations, however, and the Spaniards probably will make a renewed effort to support the Soviet party whenever possible. In the communiqué, for example, the Spanish party endorsed the call for a meeting of European Communist parties and agreed to language favorable to the Soviets on the China issue.

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ITALY

Foreign Minister Moro has secured agreement on a stopgap coalition formula that will give Italy a new government, but it leaves unresolved the economic and political differences that brought down the previous one.

The small Republican Party has agreed to join Moro's Christian Democrats in a two-party coalition, while the remaining center-left parties--the Socialists and Social Democrats--have agreed to provide the coalition with a parliamentary majority. The accord came in the wake of mounting pressure from a substantial portion of the Italian media and public that urged an end to the long stalemate.

Moro tried initially to set up an all - Christian Democratic cabinet supported in parliament by the other three parties. The Social Democrats balked, however, maintaining that such a government would not be sufficiently insulated from Communist influence.

The other parties disagreed, and the Social Democrats--increasingly isolated--caved in when Moro sought their support for the Christian Democratic - Republican formula. The Christian Democratic leadership instructed Moro on Monday to try the two-party approach, undoubtedly as a face-saving device for the Social Democrats; they had not previously voiced public opposition to such an arrangement.

Moro hopes that tempers will now cool sufficiently to permit a later attempt to revive the center-left coalition. Failing that, he will try to keep the lid on interparty conflicts until the nationwide local elections in June, which will involve nearly all of the Italian electorate. After the elections, the politicians will reassess the situation.

While the political bargaining has gone on, economic problems have continued to mount. In addition to continuing inflation, rising unemployment, and growing labor unrest, it now appears that Moro will have to

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deal with a serious fuel shortage this winter. A combination of poor planning, unfavorable circumstances, and short-sighted economic policy has left the state electricity agency with severely depleted fuel oil reserves. Unless the situation is remedied soon--which seems unlikely--the government will have to ration electrical power this winter. In that event, it will face difficult political choices in allocating power between industry and the consumer.

BRAZIL

Incomplete returns from last Friday's congressional elections indicate numerous, substantial victories are in the works for the opposition party. At stake are one third of the Senate seats and the entire Chamber of Deputies, as well as state assemblies.

The gains by the opposition are in large part the result of widespread discontent with the rapidly rising cost of living. The government recently announced a wage boost and the easing of consumer credit, but these measures failed to dampen the appeal of voting for the opposition as a form of public protest.

President Geisel, who advocates some loosening of the strictures on political activity, allowed the election campaign to become unusually free-wheeling by recent Brazilian standards. Also, he has since shown no inclination to interfere with the count or suppress news of the government setback. He is leaving himself open, therefore, to criticism from extreme conservatives in the military who are likely to push for a return to more repressive measures.

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EC

The EC Commission, in its latest report to the finance council, is more pessimistic than ever about the Community's economic prospects.

The report continues to cite inflation as the major problem facing the Community. Inflation this year will range between 15 and 20 percent for Italy, the UK, Denmark, and Ireland. All other member countries, except West Germany, face a lower double-digit rate of inflation.

Unemployment in the Community as a whole was placed at 3 million in August--3.1 percent of the total work force--and is expected to rise to 4 million by March. The Commission's estimates on inflation seem accurate, but unemployment may go somewhat higher.

The cumulative current-account deficits from 1974 through 1978 for the UK, Italy, and France are forecast by the EC at \$36 billion, \$26 billion, and \$18 billion, respectively. These deficits are expected to be partially offset by an accumulated surplus of \$26 billion by Germany. The combined, cumulative EC deficit is estimated at \$60 billion. Since the combined EC deficit is certain to top \$20 billion this year, it is unlikely that the current-account deficit for the EC will drop to an average \$10 billion over the next four years, as implied by the Commission statistics. [REDACTED]

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SOUTH VIETNAM

The prospect that South Vietnam will be producing some oil by the end of the decade is steadily improving, but it would be some time before oil revenues could begin to contribute significantly to Saigon's export earnings.

The signs, though favorable, were blown out of proportion by a South Vietnamese official. In a recent statement, the outgoing minister of trade and industry said South Vietnam by 1977 would be earning "over \$1 billion a year in oil exports."

Despite the fact that no commercial finds have yet been confirmed, production could be in its early stages by late 1977. Pecten Vietnam, the firm in whose concession the oil has been found, estimates that, given current backlogs in orders for oil-producing equipment, full-scale production would almost certainly not be achieved before 1980.

Further development of Vietnamese oil reserves depends on such factors as security conditions and the general international environment for oil investment. The most optimistic outlook would seem to be for oil earnings by 1980 of around \$100 million a year and related foreign spending in the domestic economy of the same order.

The degree that oil revenues would go toward covering a foreign exchange deficit for 1980 depends on Saigon's ability to increase exports of other commodities. Nonetheless, the foreign exchange gap--excluding aid--for 1980 is likely to exceed \$500 million.



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USSR-Peru: The Soviet arms carrier that arrived in Callao earlier this month has offloaded as many as 70 T-55 medium tanks and the associated equipment that had been carried on its deck. Artillery and ammunition also may have been delivered. This was the fourth military shipment by the Soviet Union to Peru since November 1973. The total inventory of T-55 tanks in Peru is believed to be between 150 and 200, enough to equip about six tank battalions.

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EC-US: The European Coal and Steel Community is considering lending money to French and German steel companies to finance the acquisition of coal mines in the US. This would be the first such loan for projects outside the European Community. Foreign steel companies have shown considerable interest in US coal mines in recent months, but they usually secure long-term supplies by offering loans, rather than by purchasing equity.

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North Vietnam: Politburo member and special counselor Le Duc Tho is heading a North Vietnamese delegation to Paris at the invitation of the French Communist Party. Included in the entourage are at least nine other people who served with Tho in Paris during the cease-fire negotiations. The delegation left Hanoi on November 18 and will travel via Peking and Moscow. It is scheduled to arrive in Paris sometime next week and stay about ten days.

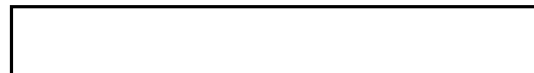
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